



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

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Second District

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Third District

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Fourth District

MICHAEL D. ANTONOVICH
Fifth District

February 6, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

STATUS OF STATE BUDGET DISCUSSIONS, PROPOSALS TO DEFER OR DELAY PAYMENTS TO THE COUNTY AND RECOMMENDED MITIGATIONS (AGENDA ITEM S-2, MEETING OF FEBRUARY 10, 2009)

This report provides an update of State Budget discussions, and the status of proposals for program payment deferrals and delays. We also recommend that until the County's cash flow issue is resolved, your Board:

- Approve the immediate implementation of a hard hiring freeze, excluding critical health and safety positions, to keep salary and employee benefit costs at an absolute minimum; and
- Instruct the Chief Executive Office (CEO) to work with the Auditor-Controller to freeze non-essential purchases of services, supplies, and fixed assets.

State Budget Discussions

Each week brings with it new rumors of a pending State Budget agreement. Last week, reports began to circulate that there would be a vote on a State Budget during the past weekend based on a notice from Speaker Karen Bass that the full Assembly was to be on call for Saturday and/or Sunday floor sessions. This resulted in considerable Capitol speculation about "handshake" deals among the Governor and the Legislative Leaders (Big Five) by last Friday and votes on Sunday.

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Toward the end of last week, other rumors began to surface that negotiations among the "Big Five" had broken down again. Consequently, the outlook is uncertain. The only certainties are that the Big Five are still meeting regularly and that there is still a very tight embargo on the contents and conclusions of their meetings, which do not include any other legislators. It does not appear that any definitive information will be forthcoming anytime soon.

Yesterday, the Secretary of the Senate sent a notice to all Senators that today was no longer a check-in session and that the next check-in session would be on February 10, 2009. This suggests that only an unforeseen, last-minute breakthrough will produce a State Budget vote before the middle of next week. Nevertheless, the Big Five continue to meet, and all inquiries are met with statements that "we are close."

In a statement to a group visiting the Capitol last week, an Administration official said that any revenue increases would be contingent on voter approval of a spending limit. As explained, any tax measure passed by the Legislature and signed by the Governor would become effective immediately, and if the voters failed to approve the spending limit, the new tax or taxes would then cease to be effective. The clear intent of this language is to forestall a campaign to oppose the spending limit.

Administration Proposal to Defer State Payments to Counties

Last week we reported that Administration officials had indicated that the proposal to defer payments to counties for up to seven months would only amount to \$1.8 billion instead of the \$3.5 billion estimated by the California State Association of Counties (CSAC), which was based on the Administration's proposed trailer bill language. Administration officials also indicated that not all the programs referenced in the original proposal would be affected. However, based on the most recent information from the California Department of Finance and other State organizations, CSAC staff has indicated that the \$3.5 billion statewide impact is still a sound estimate of the potential exposure to counties. Therefore, consistent with our report of January 26, 2009, the estimated impact on the County from the proposal to defer payments for seven months from February to August 2009 remains \$1.423 billion.

State Controller's February Payment Delays

As reported on January 26, 2009, the State Controller announced a plan to start delaying payments for certain programs until adequate solutions to address the State's cash shortfall were in place. According to a February 3, 2009 Budget Letter from the Department of Finance, the State Controller has begun the implementation of the payment delay plan to preserve cash for education, debt

service obligations, and other payments required by the State Constitution, Federal law, and court rulings. The first round of payment delays, which would affect County programs and services are scheduled for February 13 and 28, 2009. Based on the limited information available and in consultation with County departments, we estimate the impact of the State Controller's February payment delays to be \$105.6 million.

County Mitigation Efforts

We are working closely with departments to determine potential savings in the current fiscal year, which could be diverted to help address the cash flow problem created by the State Controller's plan to delay payments. As a result of the State's delay and potential deferral of payments to the County, and in order to reduce County expenditures to the absolute minimum to preserve the County's cash flow, we are recommending your approval to:

- Approve the immediate implementation of a hard hiring freeze, excluding critical health and safety positions, to keep salary and employee benefit costs at an absolute minimum; and
- Instruct the CEO to work with the Auditor-Controller to freeze non-essential purchases of services, supplies, and fixed assets.

The Sacramento advocates will continue to strongly oppose the proposed reductions and deferrals and work closely with CSAC, Urban Counties Caucus, and the coalition of mutual interest groups.

We will continue to keep you informed.

WTF:GK/DL
DW/ML:MR:EC:sb

c: Executive Officer, Board of Supervisors
County Counsel